

Invisible Businesses: the characteristics of home-based businesses in the United Kingdom

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Postprint / Postprint

Zeitschriftenartikel / journal article

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Empfohlene Zitierung / Suggested Citation:

Mason, C., Carter, S., & Tagg, S. (2010). Invisible Businesses: the characteristics of home-based businesses in the United Kingdom. *Regional Studies*, 45(5), 625-639. <https://doi.org/10.1080/00343401003614241>

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Journal:	<i>Regional Studies</i>
Manuscript ID:	CRES-2008-0174.R2
Manuscript Type:	Main Section
JEL codes:	M13 - Entrepreneurship < M1 - Business Administration < M - Business Administration and Business Econ; Marketing; Accounting, R11 - Regional Economic Activity: Growth, Development, and Changes < R1 - General Regional Economics < R - Urban, Rural, and Regional Economics, R58 - Regional Development Policy < R5 - Regional Government Analysis < R - Urban, Rural, and Regional Economics
Keywords:	home working, home-based business, small business, local economic development



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INVISIBLE BUSINESSES: THE CHARACTERISTICS OF HOME-BASED
BUSINESSES IN THE UNITED KINGDOM

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(Received July 2008: in revised form December 2009)

ABSTRACT

Home-based businesses (HBBs) comprise a significant proportion of the small business sector. But because they are invisible their economic significance is assumed to be minor. This paper challenges this view. The majority are full-time businesses. One in ten have achieved significant scale. They create jobs for more than just the owner(s). They are concentrated in computer-related, business and professional service sectors. They also have a distinctive geography. Rural areas and non-metropolitan parts of southern England have the highest proportion of HBBs. Urban-industrial regions have the lowest proportion. This suggests a need to reconsider the role of HBBs in local economic development.

Key words: home working, home-based business, small business, rural economy, urban economy, local economic development

JEL codes: L26; O18; R52

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3 1. INTRODUCTION
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5 One of the most significant trends in the post-industrial era has been for the home to
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7 become an important focus for work, reversing the forces of the industrial era in
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9 which the spaces of home and work were clearly demarcated (Felstead et al, 2005).
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11 As Pink (2001: 41) observes, “the home itself is being reconfigured as a place that’s
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13 not a respite from work, but the central location for it.” In the United Kingdom,
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15 according to the 2005 Labour Force Survey, 3.1 million people now work mainly
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17 from home, comprising 11% of the workforce. This is a 35% increase compared with
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19 1997 (Ruiz and Walling, 2005).
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26 The growth in home-based working is a reflection of two separate trends. First, large
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28 companies such as BT are recognising the savings in overhead costs and increased
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30 productivity that can be achieved when their employees work from home rather than
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32 from an office (Donkin, 2008). Second, there has been a growth in home-based
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34 businesses. Indeed, home-based business owners significantly outnumber home-based
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36 employees. According to the UK Labour Force Survey nearly two-thirds of all home-
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38 based workers are self-employed (Ruiz and Walling, 2005), underlining the extent to
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40 which the home is now a significant location for entrepreneurial activity. The Global
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42 Entrepreneurship Monitor (GEM), a large telephone-based household survey, reveals
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44 that 59% of UK businesses operate from home¹ (Levie and Mason, 2009). The
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46 Government’s annual small business survey gives a lower figure of 51% but this is
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48 based on the proportion of businesses for which the home was the main location for
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50 start-up (BERR, 2007a). Meanwhile, Census data indicates that 56% of the self-
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52 employed were home-based in 2001 (Dwelly et al, 2006). The proportion of home-
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54 based businesses is similar in other countries. In the USA, 52% of business tax returns
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56 are submitted by home-based businesses (Phillips, 2002) while over two-thirds of all
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sole partnerships, partnerships and S-corporations are home-based (Beale, 2004). In Australia 58% of businesses (67% of small businesses) are home-based (Walker et al, 2004).

From a geographical perspective home-based businesses are particularly important in rural areas. In the USA, where the direct and indirect impacts of the shift to industrialised agriculture has reduced traditional rural jobs, home-based businesses are an important economic development function in communities that are too small to attract mobile investment in the form of industrial plants or large retailers (Rowe et al, 1999). In the United Kingdom, Dwelly et al (2006) has argued in a report for the Commission for Rural Communities that “home-based businesses are now a critical part of the economy ... [of] ... rural areas and market towns” and a key driver of rural sustainability. First, they are important numerically, accounting for 12% of the UK’s rural workforce (750,000 people) compared to 8% in urban areas. Making this point in another way, 55% of rural businesses operate from home compared with 39% of urban businesses (Dwelly et al, 2006). Second, home-based businesses play a key role in the sustainability of rural communities and small towns by reducing out-commuting, revitalising the day-time economy and adding to local purchasing (Newbery and Bosworth, 2008). Third, home-based businesses can help to sustain rural households which often depend on multiple sources of income (Fuller, 1990; Ellis, 2000). Finally, an economy based on home-based businesses is sustainable, as it does not require new buildings or physical expansion to accommodate such activity. Better support for home-based businesses is a key recommendation of the recent review of the rural economy by Matthew Taylor MP (Taylor, 2008).

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The growing significance of home-based working has attracted a significant body of research (see Felstead et al 2005 for a summary). However, this research is dominated by a focus on home-based *employees* whereas much less attention has been given to home-based businesses, despite their numerical significance. Clearly, many of the issues of home-based working are common to both employees and the self-employed, but there are also some fundamental differences. For example, home-based employees are linked to an organisation, are managed, and have colleagues with whom they interact, whereas home-based business owners are independent and potentially more socially isolated. Many home-based employees may only work for a proportion of their time at home, spending the rest of their time at their place of work or on the road, meeting clients and collaborators. Some home-based businesses employ other people. Home-based business owners are also more likely to have greater interaction with their local community to obtain advice, information and business services which the home-based employee can access from their organisation. It is therefore important to make a conceptual distinction between those who run businesses from home and employees who work from home.

However there is a paucity of evidence on home-based businesses. Home-based businesses are not separately identified in official statistics. Estimates of the number of home-based businesses are sensitive to definitions and data sources. Survey-based research is hampered by the invisibility of home-based businesses. This is compounded by the fears of many home-based business owners that they are breaking the conditions of their property deeds, tenancy contract or mortgage agreement or contravening planning by-laws, or that they might be subject to additional expense (e.g. business taxes, capital gains tax) or regulation if they are ‘discovered’ by officials. This may result in significant undercounting. A survey on behalf of

Horsham District Council identified 8.7% of households who *admitted* to running a home-based business but estimated that the true proportion was around 15% (Abacus Insight, 2007). Meanwhile, the literature on home-based business is narrowly focused, largely engaging with issues in the broader home-based employment literature, notably work-life and family issues (Berke, 2003; Baines and Gelder, 2003; Fitzgerald and Winter, 2001), or look exclusively at women home-based business owners (Holmes et al, 1997; Jurik, 1998; Loscocco and Smith-Hunter, 2004; Rehman and Frisby, 2000; Walker and Webster, 2004). There have been very few studies – and none in the UK - that have provided a detailed profile of the characteristics and economic contribution of home-based businesses.

In the absence of a clear evidence base, views of home-based businesses have polarised around two stereotypes. One view dismisses home-based businesses as comprising lifestyle or hobby businesses, largely run by women to fit around childcare and household responsibilities and generating low incomes and therefore economically insignificant. This view encourages government at all levels to ignore home-based businesses in their economic development strategies. The alternative perspective highlights the economic, social and environmental benefits of home-based business – strengthening local economies through job creation and commercial linkages, thereby reducing local economic leakages, enlivening day time neighbourhoods (in both rural areas and suburban dormitory suburbs) thereby increasing their safety and security, and benefiting the environment as a result of their positive carbon balance (Lake, 2008).² Home-based businesses are also seen as valuable because they provide a means of achieving work-life balance, and enable people who are tied to the home for social or physical reasons and therefore excluded from the labour market (e.g. those who have family caring responsibilities or are

disabled³) to be economically active (Pratt, 2006). These benefits would justify policy intervention to encourage home-based businesses. But, because of paucity of research, home-based businesses are largely ignored in economic development strategies of national, regional and local governments. This is the case in the United Kingdom (Dwelly at al, 2006; Taylor, 2008; Enterprise Nation, 2008).⁴

It is therefore clear that there is a need for a much stronger evidence base on home-based businesses, particularly if national, regional and local governments are to be convinced of the need to develop meaningful policies to support and encourage the sector. This paper takes a first step in this direction by drawing on a large survey of SMEs which enables us to provide the most comprehensive profile to date of home-based businesses in the UK. It addresses three fundamental questions about the home-based business sector:

- What proportion of the small business population operates from home and to what extent does the significance of home-based businesses vary geographically?
- What are the characteristics of home-based businesses and to what extent and in what ways are they distinctive from other types of SMEs?
- What is the economic significance of home-based businesses?

The answers to these questions will provide a stronger basis for assessing whether policy makers should adopt a more supportive stance towards the home-based business sector.

2. THE GROWTH OF HOME-BASED BUSINESS

The growing significance of home-based businesses is deeply entwined with the revival of the small business sector that has characterised advanced economies over the past 25-30 years. First, cultural attitudes towards self-employment have become more positive. The social contract between business and labour, in which large companies provided lifelong employment, steady pay increases with seniority and generous pensions in exchange for employee loyalty and commitment, started to break down in the 1980s. Few large companies now offer long term job security and other benefits of working in the corporate sector have disappeared. Pension schemes have been curtailed or closed, seniority systems have given way to performance pay, workloads have increased and work schedules are increasingly long and inflexible. As a consequence, working in the corporate sector has become less attractive and rewarding, especially for Generation X (the post-baby boomers born between 1965 and 1980) who have become increasingly willing to leverage their skills and professional networks to work for themselves doing the jobs they did in the corporate world but as independent consultants (Institute for the Future/Intuit, 2007a).

Generation Y, or Millenials, (born between 1978 and 2001) are intensive users of technology, having been raised on computers and the internet, are also less likely to be attracted by corporate careers and more likely to want to maintain their independence and 'own' their own careers, and so are also much more likely to work for themselves compared with previous generations (Institute for the Future/Intuit, 2007a).

Meanwhile economic, cultural and technological changes have opened up opportunities for small businesses. Sectoral shift, involving the decline in manufacturing and growth of business and personal services, has been a key driver

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2 because of the lower barriers to entry in many parts of the service sector.
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5 Restructuring, downsizing and the development of new ways of organising work by
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7 large organisation, such as project based working (Grabher, 2002; Ekinsmyth, 2002;
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9 Sydow and Staber, 2002), has led to a reduction in the number of permanent workers
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11 employed by large organisations and an increase in their use of independent
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13 contractors, freelancers and outsourcing to independent businesses. Growing
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15 affluence has led to the fragmentation of markets as customers have demanded
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17 products and services tailored to their specific needs. One type of small business that
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19 has been favoured by this trend is craft businesses producing one-of-a-kind and
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21 limited runs of speciality goods for customers seeking unique, customised or niche
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23 products (Institute for the Future/Intuit, 2008).
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31 Finally, size and economies of scale have become less important, reducing start-up
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33 costs. The costs of doing business are becoming variable rather than fixed on account
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35 of increasing opportunities to outsource (e.g. distribution and shipping). ICT
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37 technology in the form of cheap and powerful personal computers and software, and
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39 other innovations (e.g. express parcel delivery, printing and copying) have provided
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41 small businesses with the power, scope and access of large companies but without
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43 sacrificing the independence and flexibility of being small. The internet, along with
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45 money transfer mechanisms (notably PayPal), have been particularly important in
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47 enabling small businesses to cost-effectively serve small, geographically dispersed,
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49 market niches (the ‘long tail’ phenomenon). At the same time, consumers have
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51 become more comfortable buying online (Institute for the Future/Intuit, 2008). Small
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53 businesses can access technology through ‘plug and play’ access and open source
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55 hardware (Institute for the Future/Intuit, 2008).⁵ Advances in production technologies
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2 which connect PCs to a wide range of machine tools have encouraged small scale
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4 manufacturing (Pink, 2001; Institute for the Future/Intuit, 2007b; 2008).
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10 Many of these trends have specifically favoured the formation of home-based
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12 businesses. ICT – laptop computers and associated software, mobile phones and high
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14 speed internet access – has been critical, as surveys of home-based businesses confirm
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16 (Enterprise Nation, 2008), both in eroding the locational restrictions on work, so that
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18 “where there’s a signal, there’s a workplace” (Rigby, 2008), and in creating new
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20 opportunities for home-based businesses. The nature of many service businesses
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22 means that they can be run from home. The key requirements for many knowledge-
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24 based professional services businesses (e.g. accountants, web site developers, on-line
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26 traders, consultants) are IT equipment and internet access, which require little space.⁶
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29 Millions world-wide now trade on eBay, with many thousands operating as full-time
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31 businesses. Moreover, technology not only gives knowledge workers “the tools to
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33 work from pretty much anywhere” (Business Week, 2005) but also enables them to
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35 co-operate, collaborate and co-ordinate with independent workers and companies
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37 separated by geography to work on collaborative projects (Institute for the
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40 Future/Intuit 2007b). Changes in employer labour use strategies (for example, in the
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42 publishing industry) have taken the form of transforming former in-house employees
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44 into self-employed home-based freelancers (Granger et al, 1995; Stanworth and
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46 Stanworth, 1995). Home-based businesses started by retirees has been boosted by the
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48 growth of non-traditional forms of retirement by the ‘baby-boomer’ generation who
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50 want to remain economically active, and increasingly may need to supplement their
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52 pensions with additional sources of income.
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Running a home-based businesses is seen as providing a flexible form of economic activity (e.g. number of hours worked, configuration of hours worked, time periods worked and location of work) and an enhanced quality of life which people are increasingly willing to trade-off against financial return. Commentators frequently emphasise how running a business from home is a means of combining work with family or outside interests.⁷ The ability of a home-based business to combine work with family is presented as being a particularly attractive option for young mothers ('mompreneurs'). The business enables them to keep up their professional, intellectual or artistic interests and earn an income without compromising the needs of the family (Institute for the Future/Intuit, 2007a).⁸ Some studies have also noted the benefits that children derive from having a parent, or both, who run a home-based business (Beach 1993; Baines and Gelder, 2003).

Of course, the reality is often rather different. Home can be an awkward and inflexible place in which to work, lacking adequate space to accommodate the competing demands of work and family life (Baines, 2002). The anticipated flexibility and control over time often does not materialise (Evans et al, 2004). Giving up paid employment to run a home-based business involves the loss of a sociable work place and colleagues, regular updating of skills, a regular pay cheque and a clear division between work and home. In their place may come social isolation, irregular income, stress with partners and problems associated with the lack of physical boundaries between work and home/family (Beach, 1993; Stanworth and Stanworth, 1995; Case, 2002; Baines, 2002). The balance of costs and benefits of running a home-based business may be particularly unfavourable for women who are more likely than men to start a home-based business because of the convenience of balancing work with family responsibilities (Holmes et al, 1997; Rouse and Kitching, 2006; Kirkwood and

Tootell, 2008; Walker and Webster, 2004). They may have given up an occupation but failed to gain the financial security or the flexibility that was sought (Walker et al 2008; Wynarczyk et al, 2008). Women with children are also likely to experience greater social isolation and have fewer opportunities to upgrade their skills (Holmes et al, 1997). On the other hand, Loscocco and Smith-Hunter (2004) claim that women running home-based businesses experience less work-family conflict than those who run businesses away from the home. Moreover, for people who are tied to the home for caring or other reasons, a home-based business may be the only means of generating an income. Other studies take a more nuanced view, arguing that various mediating factors, such as household context and nature of the business, will influence the impacts of home-based businesses on family-life (Beach, 1993; Mirchandani, 1999; Baines and Gelder, 2003; Belle and La Valle, 2003). Indeed, Owen and Winter (1991) argue that it is not the physical presence of the business in the home that creates potential conflict but the amount of time devoted to running it and the degree of control it has over family schedules.

3. DATA SOURCES

This paper is based on responses to the Federation of Small Businesses (FSB) 2005/6 biennial survey of its membership (Carter et al, 2006). The FSB biennial surveys are among the largest non-government business surveys in the UK. Data were collected by a postal survey questionnaire distributed to 169,418 FSB members in September 2005.⁹ In total, 18,939 usable responses were received by the cut-off date, a response rate of 11.17%. Comparison with VAT statistics indicates that FSB respondents are fairly typical in terms of region and sector. Nevertheless, some deviation is inevitable since only 77% of FSB respondents are registered for VAT.

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Conceptually a home-based business can be defined as any business entity engaged in selling products or services into the market operated by a self-employed person, with or without employees, that uses residential property as a base from which they run their operation. This includes two main types of businesses: those where the work (production or service) occurs in the home, and those where the work occurs away from the home with the home serving as the administrative base. Studies in Australia suggests that businesses where the work occurs in the home accounts for between 56 and 58% of all home-based businesses (Victoria University, 2007; Walker et al, 2007a; 2007b). However, it also potentially includes three other activities which are excluded from most definitions of home-based businesses (e.g. Monin and Sayers, 2005): (i) agency workers, independent contractors and other ‘Free Agents’ (Pink, 2001) who are effectively in the employ of other organisations; (ii) farm-based businesses, and (iii) ‘commercial homes’ in which the home is part of the commercial premises (e.g. bed and breakfast establishments, small hotels, some pubs) (Lynch, 2005). Unfortunately, our data cannot capture these subtleties. In this study a home-based business is defined on the basis of self-reported data as a respondent who ticked the ‘home’ option in response to the question “From what type of premises do you operate your business?”¹⁰ A further limitation is that because of the nature of the survey, which covered a wide range of topics, it was not possible to explore any individual topic in depth. Thus, there were just three specific questions for home-based businesses. On the other hand, the range of topics covered in the survey, allied to its scale, enables a comprehensive comparison to be made between home-based businesses and the remainder of the small business sector.

4. THE SIGNIFICANCE OF HOME-BASED BUSINESSES

The data confirm the significance of the home as a location for small businesses.

Home-based businesses account for over one-third (36%) of all small businesses in the sample, with home by far the single most important location for small businesses, exceeding those businesses which operate from retail premises (21%), a factory, workshop or business unit (19%) or office premises (18%). The majority of home-based businesses operate from exclusive space within the home – either a room that is solely used for business purposes (48%), attached or external premises (e.g. garden hut) (16%) or an extension to the house (6%), similar to the proportion of home-based businesses (68%) reporting in Enterprise Nation's most recent survey that they operate from dedicated space in the home (Enterprise Nation, 2008). The proportion of home-based businesses is lower than reported by GEM or in the Government's small business survey but this can be explained by the nature of the survey population, with FSB members likely to be biased towards full-time businesses whereas other estimates of the size of the home-based business population are likely to capture a higher proportion of part-time businesses.

The majority of home-based businesses operate on a full-time basis (Table 1). Nearly three-quarters of owners of home-based businesses work more than 40 hours a week in their business, little different from the equivalent figure (67%) reported by Enterprise Nation (2008) and a higher proportion than reported in US studies (Phillips, 2002; Pratt, 2006). However, home-based businesses are more likely to operate on a part-time basis than other businesses, with 13% of owners of home-based businesses working for less than 30 hours a week compared with only 4% of other owners. The owners of home-based businesses are also less likely than other business owners to rely on the business as their only source of income (61% cf. 71%) and more

likely to have other sources of income, notably other employment (9% cf. 4%) and pensions (13% cf. 6%), suggesting that home-based businesses are part of a portfolio of income generating activities for a significant minority of owners.

The second significant insight from the data is that for the majority of businesses a home location is a deliberate choice, made either for cost-minimisation reasons (65%), convenience (54%) or because the nature of the business did not require commercial premises (44%) (Table 2). Only a small proportion of businesses are classified as home-based because the business premises also includes living premises (10%). Lifestyle considerations, such as to accommodate family needs (28%) and to avoid the need for commuting (28%), are only of secondary importance as reasons for operating the business from home. It is also interesting to note that providing flexibility in the choice of where to live is a minor reason for starting a home-based business, cited as very important by 16% but unimportant by 51%. Only 10% of respondents indicated that a home location was temporary and that the business would move to commercial premises when it was bigger.

Home-based business owners are much more satisfied with their quality of life than other small business owners. Asked to compare their quality of life with what it might have been if they were not a business owner 55% thought it was better (compared with 45% of other business owners) whereas only 24% of home-based business owners considered that it was worse (compared with 35% of other business owners). Nevertheless, the majority of home-based businesses owners do not appear to have made a financial trade-off in order to secure this quality of life. There was little difference between home-based business owners and other business owners in terms of their answer to a question about their financial standing compared with what they

might have expected if they had not been a business owner. The proportion of home-based business owners who considered it to be worse (38%) was little different to that of other business owners (36%) and was lower than the proportion thinking that it was better (39%, cf. 42% of other business owners). It would therefore appear that although some owners of home-based businesses have made a trade-off between income and quality of life there are also many who enjoy better quality of life without compromising their standard of living as a result of running their business from home.

5. THE GEOGRAPHY OF HOME-BASED BUSINESSES

Home-based businesses have a distinctive geography. At the regional scale the proportion of home-based businesses is above the national average (36%) in just three regions - South East England (41%), South West England (41%) and Scotland (37%) (Table 3). Home-based businesses are least significant, in terms of their proportion of the small business population, in Northern Ireland (18%), the North East (29%), Yorkshire and The Humber (29%) and the North West (30%). Indeed, there is a close correspondence between those regions with low proportions of home-based businesses and those with the lowest rates of new firm formation. Superimposed on this regional contrast is an urban-rural dimension, with the proportion of businesses which operate from home significantly higher in rural areas than in urban areas (Tables 4 and 5). These two geographies of home-based businesses are reflected in Figure 1 which shows the proportion of small businesses that operate from home by post code area. Areas with the highest proportions of home-based businesses are of two types: (i) affluent towns and cities and their rural hinterlands in southern England, particularly a south west axis running from Slough, through Kingston upon Thames and Reading to Salisbury, and (ii) a group of remoter rural counties, notably the

Highlands and Islands of Scotland, south-west Scotland, mid Wales, East Anglia and South West England.

Areas with the lowest proportions of home-based businesses comprise the major provincial cities (e.g. Liverpool, Manchester) and older de-industrialised towns in the north of England and West Midlands (e.g. Wigan, Sunderland, Blackburn, Huddersfield, Hull). There is a particular paucity of home-based businesses in socially deprived parts of the UK: in the 1000 most socially deprived areas just 11% of businesses operate from home compared with 36% in the rest of the country. One reason for this is likely to be associated with the housing stock (e.g. tower blocks, flats, terraces) which are much less suitable for home-based businesses than detached homes in the suburbs (Green et al, 2000). Another reason is that most social landlords still have tenancy agreements that bar the use of housing for commercial purposes (Dwelly, 2002; 2008). While this is not an issue that is confined to urban areas (see Dwelly et al, 2006; Taylor, 2008) its impact is that much greater in large urban areas because social housing comprises a higher proportion of the housing stock.

Looking at the location of home-based businesses in terms of the type of places in which they are based reinforces this dualism. Home-based businesses are predominantly located in three types of place: residential areas in suburbs (43%), farm/other property in rural areas (21%) and village centres (18%). By contrast, only 4% of home-based businesses are located in residential areas in inner cities.

It is also important to note the potential indirect economic impact of home based businesses on their local communities. Unlike most home-based workers, home-based business owners lack access to the back up resources of a parent organisation and so

are likely to leverage external resources which, in turn, increases both the social and economic activity in their neighbourhoods. These resource needs are of three types. The first is complementary business services such as copy and printing shops, office supply stores, postal services, overnight delivery services and IT support (Pink, 2001). The second is spaces for informal meetings, networking and socialising. Lonier and Bamford (2004) observe that these informal meeting and networking spaces often occur in coffee shops which are becoming “the new entrepreneurial office”, providing both informal workspace (e.g. for meetings and as a place for ‘head down’ work) for home-based business owners and also social and psychological support by enabling such individuals to create a community with other self-employed workers equivalent to the corporate ‘water cooler’. Home-based business owners are therefore using places such as Starbucks not just for traditional bootstrapping reasons as a source of free meeting space, but also to overcome the isolation of solitary home-based work and compensate for the loss of the social environment of their previous workplace (Lonier and Bamford, 2004). Third, some home-based businesses have a periodic or one-off need for formal meeting spaces, access to specialist business support facilities (e.g. video conferencing, special printers, copiers, etc.), co-working space and ‘head down’ space (Pink, 2001). An emerging response to this need is enterprise hubs – property developments which provide meeting space, work stations, board rooms, presentation suites and eating facilities and provide opportunities for home-based business owners to network. (Dwelly, 2008).

6. THE CHARACTERISTICS AND ECONOMIC SIGNIFICANCE OF HOME-BASED BUSINESSES

Having established that home-based businesses represent a significant proportion of the SME population and have a distinctive geography we now explore the extent to

which they have distinguishing characteristics in terms of sector, size and growth, and age. This allows us to draw some conclusions about the economic significance of home-based businesses.

Home-based businesses are distinctive in terms of industry sector (Table 6). Home-based businesses account for the highest proportion of total businesses activity in computers and related activities (58%), business services (54%), agriculture, forestry and fishing (48%), personal services (45%), construction (44%), financial services (42%) and transport (42%). In contrast, home-based businesses are least significant in the motor trades (12%), retail (14%) and manufacturing (17%) sectors. This highlights the diversity of home-based businesses, comprising both traditional trades, which predominantly operate *from* the home and which primarily serve local markets, and newer ICT-based knowledge services, which operate *in* the home, and have the ability to serve non-local customers. However, as Table 7 shows, the notion that e-commerce is driving the growth of home-based businesses is not confirmed. The proportion of home-based businesses which derive over half of their turnover from e-commerce remains small – although is two to three times larger than for the remainder of the SME sector – indicating that businesses which are focused on e-commerce are more likely to be located in the home.¹¹

Home-based businesses are smaller than other SMEs in terms of both turnover and employment and so are clearly clustered in the micro business category. In terms of turnover, 72% of home-based businesses have annual sales of £100,000 or less, compared with just 27% of other SMEs, and 48% have sales of £50,000 or less, compared with only 13% of other small firms (Table 8). This is, in part, a function of the part-time nature of a minority of home-based businesses. It will also reflect the

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3 lower cost base of home-based businesses which enables them to be profitable on a
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5 smaller volume of sales and, in turn, to pursue smaller (but not necessarily less
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7 lucrative) opportunities (Singh and Lucas, 2005). It also arises, in part, from a right-
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9 censoring problem. Businesses which have out-grown the home are, by definition,
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11 excluded. The small size of many home-based businesses is reinforced when
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13 examined in terms of surrogates for size. For example, home-based businesses are
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15 more likely to be sole traders (46% cf. 26%) and less likely to be limited companies
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17 (38% cf. 54%). Home-based businesses are also less likely to be registered for VAT
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19 (61% cf. 85%). Nevertheless, the majority of home-based businesses create jobs for
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21 more than just the owner(s) (Table 9). Of course, those employed by home-based
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23 businesses do not necessarily work in the home of the business owner and might
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25 instead work onsite or in their own homes. It is also important not to overlook the
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27 minority of home-based businesses that have achieved significant scale. In terms of
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29 turnover, 10% have revenue in excess of £250,000. In terms of employment, 9% of
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31 home-based businesses have 10 or more workers.
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40 Moreover, the small size of most home-based businesses should not be interpreted as
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42 indicating lack of ambition. More than half (57%) had increased their turnover in the
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44 previous year – the same proportion as for other SMEs - and the proportion reporting
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46 declining sales was smaller (25% cf. 28%). Admittedly, the proportion of home-based
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48 businesses wanting to remain the same size was higher than for other businesses (31%
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50 cf. 22%). However, 58% of home-based businesses wanted to grow their businesses
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52 (10% to grow rapidly). But reinforcing the locational inertia theme, only 21%
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54 anticipated the need to seek new premises to accommodate this growth. This is
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56 because home-based businesses achieve growth though a combination of employing
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58 additional staff in their own homes, using freelance staff and outsourcing (Enterprise
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Nation, 2008). Nearly two-thirds (64%) expected to remain the same size in employment terms over the next two years (cf. 46% amongst other businesses) and although the proportion likely to shrink their employment was only 5% (compared with 10% of other businesses) just 31% expected to expand their workforce (cf. 44%). A very similar picture of jobless growth is reported by Enterprise Nation (2008): the majority of firms in that survey also planned to grow (68%) but only a minority expected to take on new staff (14%). Home-based businesses therefore have distinctive growth strategies which generates more jobs indirectly than directly.

Contrary to what might be expected, home-based businesses are not excessively dependent on their local market for sales: only 47% derive more than half of their sales locally compared with 56% of other SMEs (which may reflect their greater concentration of retail businesses). Indeed, home-based businesses are more likely than other SMEs to derive a high proportion of their sales from regional and UK markets. Home-based businesses in general are less likely to engage in any exporting. However, the proportion of home-based businesses deriving more than half their sales from overseas customers – although very low (6%) – is actually greater than for other SMEs, indicating the presence of a small proportion of home-based businesses that are highly export oriented.

Finally, in terms of their age, home-based businesses are younger, on average, than other SMEs, with 29% up to three years old, compared with 21% of other businesses.¹² Unfortunately, the information is not available to allow us to go on to explore whether this is because of a higher start-up rate of home-based businesses, because of relocation from the home as they get older (and larger) or because of a higher mortality rate. But there is also a significant proportion of long-established

home-based businesses, with 38% being more than 10 years old, which reinforces earlier evidence that most home-based businesses, including those which are growing or are seeking to grow, view the home as the permanent location of the business and adopt growth strategies that avoid outgrowing the home.

These findings challenge the simplistic stereotype that dismisses home-based businesses as part-time, small and marginal and therefore of little economic significance. Certainly, a minority might fit this description. However, the majority of home-based businesses are serious undertakings, occupying their own dedicated space, operating on a full-time basis and based at home largely for business rather than lifestyle reasons. They are most frequently found in white collar sectors, such as computing, business services and personal services (along with primary industries and construction), though surprisingly few engage in e-commerce. Most home-based businesses are micro-scale businesses, but about 1 in 10 have achieved a degree of scale. Most create jobs for more than just their owner(s) and a majority are growth-oriented, although expansion is generally achieved through employing freelancers or outsourcing, and hence their impact on employment is largely indirect. When additional employees are taken on they may be working in their own homes. Most home-based businesses therefore do not expect to outgrow their home base. Home-based businesses are not particularly dependent on local markets for customers and some engage in exporting. These counter-intuitive findings suggest that further research is needed on the 'real world' of home-based businesses, which can explore such issues as business models, involvement in collaborative projects, role and use of technology, environmental spillovers, how the limitation of home are managed and household contexts.

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7. THE CHARACTERISTICS OF THE OWNERS OF HOME-BASED
BUSINESSES

We now shift the focus to the owners of home-based businesses. First, it has been suggested that running a home-based business might be an option for some people who are prevented from participating in the labour market, for example, for medical or caring reasons. We could only examine this in terms of people registered as disabled. Here it was found that 2.1% of owners of home-based businesses were registered as disabled, only marginally higher than for the owners of other types of SMEs (1.4%). The proportions of home-based business owners who had not been economically active immediately prior to starting their business (unemployed, a housewife, retired or long-term sick) were also all higher, if marginally so, than in the case of owners of other SMEs. So while the evidence is only suggestive, starting a home-based business might be a way – perhaps the only way - in which some people can become economically active.

Second, home-based business owners are better educated than the owners of other businesses. This is consistent with the earlier evidence which highlighted the high proportion of home-based businesses in knowledge-based sectors. One-third of home-based business owners have been educated to degree level or above (34%) compared with just over one-quarter of other business owners (26%), and 30% have professional qualifications, compared with 25% of other owners.

However, owners of home-based businesses have had fewer years as business owner-managers than other business owners. Amongst home-based business owners, 30% had been owner-managers for five years or less, compared to 21% of other business owners. In contrast 63% of other business owners had been owner-managers for more

than 10 years compared with just 52% of home-based business owners. This is reinforced by other measures of entrepreneurial experience. Home-based business owners were marginally less likely to be portfolio entrepreneurs, with 24% currently owning and managing more than one business, compared with 27% of other business owners. Home-based business owners are also slightly less likely to be serial entrepreneurs: for 57% this was the first business that they had owned and managed, compared with 51% of other owners.

Owners of home-based businesses are not significantly older than other business owners: 7% are under 35, 54% are 35-54 and 39% are 55 and over, including 8% who are 65 years old and over, little different from that of other business owners (6%, 57% and 36% respectively). Two points can be made from this evidence. First, we can infer that only a minority of home-based businesses comprise a pre-retirement cohort. Indeed, as noted earlier, only 13% are actually drawing a pension. Second, only a small proportion of individuals are using a home-based businesses as a means of working beyond the official retirement age.

Finally, with respect to gender issues, media coverage of home-based businesses emphasises the opportunities that this provides for women to become business owners. However, the reality is that only 14% of home-based businesses are 100% owned by one or more women, although this is higher than for other types of SMEs (10%). The majority of home-based businesses are either 100% male owned (44%) or equal male-female ownership (33%). Other studies have highlighted differences in the ages, motivations and expectations of male and female owners of home-based businesses and the types of businesses that they start (e.g. Holmes et al, 1997; Walker and Webster, 2004).

8. CONCLUSION

The separation of home from work is a prime example of how debates about home have been characterised by dualistic thinking (Blunt and Dowling, 2006). Of course, home has always been in part a workplace – a place of both unwaged and waged domestic labour (Blunt and Dowling, 2006; Hudson, 2005). Moreover, home working never entirely disappeared with the emergence of the factory system of production. We are in the midst of a revival in home-based working, largely driven by advances in ICT, which has attracted increasing attention from researchers and other commentators. However, research has generally failed to differentiate sufficiently between home-based working by employees and the operation of businesses from home by self-employed individuals. Home-based business owners are distinctive in as much as they are not subject to the same supervisory or surveillance regimes, and are more isolated both socially and from access to information because they have no links to a parent organisation. Hence they have greater need to forge local social and business networks to access information, advice, support and infrastructure. The rationale for this paper is that home-based businesses should be the focus of enquiry in their own right, both on account of their distinctiveness from home-based employees and also their economic significance as a proportion of the small business stock.

The paper clearly establishes that home-based businesses account for a significant part of the small business sector. Moreover, it seems inevitable that the home will become even more important as a focus for business activity in the future. Demographic trends will be a key driver. The ageing of the population, increasing longevity and improved health means that there will be more and more people of post-

1 retirement age who either wish to continue to be economically active or have a
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3 financial imperative to do so. Thus, we can expect to see more older people running
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5 businesses from home in semi-retirement. At the other end of the demographic
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7 spectrum, Generation Y, the 'digital generation', is predicted to be highly
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9 entrepreneurial and their digital technology focus means that many of their businesses
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11 are likely to be home-based. Rising costs of commuting, the increase in congestion
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13 and the introduction of carbon taxes will encourage more and more people to work
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15 from home. Affordable and powerful new technologies, web tools and search engines
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17 will continue to create new opportunities for small businesses to serve the growing
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19 customer demand for unique, customised or niche products¹³ and also to increase
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21 locational flexibility, allowing many kinds of work to be carried out 'anywhere'
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23 (Orange Future Enterprise Coalition, 2006; Institute for the Future for Intuit, 2007b).
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33 Home-based businesses have a distinctive geography. They are more likely to be
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35 found in rural areas and are clearly an important component of rural economies.
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37 However, home-based businesses are also concentrated in many non-metropolitan
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39 parts of southern England. One area for future research is to examine whether home-
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41 based businesses in different types of region (metropolitan, non-metropolitan, rural)
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43 have distinctive features and characteristics. Another area for further research is to
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45 explore from a demand perspective how spill-over effects from home-based
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47 businesses boost local economic development and community vitality, and from a
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49 supply perspective, to assess the extent to which the availability of support
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51 infrastructure affects the emergence and growth of home-based businesses.
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59 The growth in the number of home-based businesses can be expected to have
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implications for the housing market, notably a growing demand for domestic

properties that can accommodate home businesses. Hence, for many people, house design and layout may become essential criteria in the selection of appropriate housing accommodation (Green et al, 2000). One Australian study (of a suburban municipality in Melbourne) noted that over 35% of home-based business owners had chosen their current home with a view to establishing a business there (Hitech Marketing Services Pty, 1998). The growth of home-based businesses also challenges the relevance of regional planning strategies which continue to assume that home and work are physically separate (Dwelly, 2008). Future research is required to consider the extent to which housing type and tenure are significant obstacles to home-based businesses, especially in socially deprived areas, and the likely effectiveness of live-work spaces – a new category of property specifically designed for dual residential and employment activity which are being actively developed as strategies for both urban and rural regeneration (Dwelly, 2003).

An appreciation of the numerical significance of home-based businesses, their economic significance and positive impact on their local economies provides a strong argument for governments at all levels to move from their present largely neutral or agnostic position to one that acknowledges them as a legitimate and significant form of economic activity and is supportive of them. This requires clarification of the applicability and implications of many tax regimes (e.g. capital gains tax, business rates), planning laws, municipality by-laws and regulatory issues to home-based businesses. These were designed for a ‘bricks and mortar’ economy and a world in which the workplace and the home were separate, rather than a digital knowledge-based economy dominated by services. Their applicability is often unclear, creating huge uncertainty for the owners of home-based businesses (Bridges, 2007).¹⁴ The effect is to encourage them to stay ‘below the radar’ of state agencies for fear of

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2 regulation, being subject to tax or higher charges, being restricted in their activities or
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4 even being forbidden (Dwelly et al, 2006). This has two adverse consequences; by
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6 being 'out of sight' home-based businesses become largely invisible and hence are
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8 ignored by government, it is also difficult to deliver business support services to such
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10 businesses, which contributes to their low penetration amongst the small business
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12 sector (Bennett and Robson, 2003). Research on behalf of Horsham District Council
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14 in South East England has noted that there is a demand from home-based businesses
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16 for training, networking and information on regulations (Abacus Insight, 2007; 2008).
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18 From a regulator's perspective, the invisibility of home-based businesses makes it
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20 difficult to enforce many aspects of laws relating to the workplace (e.g. employment
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22 law, health and safety). Social housing tenancy agreements which forbid or
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24 discourage running a home-based business need to be removed (Dwelly, 2008;
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26 Taylor, 2008). Starting a home-based business can offer a route into work for
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28 unemployed tenants and may provide jobs for others in disadvantaged communities.
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30 Many home-based business owners also need help to overcome social isolation and to
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32 share knowledge, skills and opportunities. Here again, the need for such intervention
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34 will vary geographically. It may not be an issue in vibrant wi-fi enabled café-based
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36 neighbourhoods. However, there is likely to be a need for intervention to replicate this
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38 buzz in disadvantaged urban neighbourhoods and remote rural villages (Dwelly,
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40 2008). There is also a need to create hub facilities in recognition that the home may
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42 not be suitable for all activities (e.g. formal meetings) and at all times (e.g. school
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44 holidays) (Dwelly, 2008).
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57 Finally, the growth of home-based businesses can be seen as part of a much broader
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59 trend towards "homecentredness" which Castells (1996: 398) regards as an important
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feature of the new network society. But as the home increasingly also becomes a

place of work – and specifically a place of business – rather than a place where people return (occasionally) to eat and sleep and then go out again, it adds to the complexity of home as a theoretical concept. Blunt and Dowling (2006: 2) argue that a home is more than a physical location which provides shelter: it is “also an idea and imaginary that is imbued with feeling.” So, the transformation of the home into a place in which the domestic and the commercial become juxtaposed must inevitably create distinctive feelings, attachments, experiences and meanings, adding to its porous nature and forging new relational geographies.

ACKNOWLEDGEMENTS. Although the paper is based on data collected for the Federation of Small Business’s biennial membership survey it is an independent study and does not necessarily represent the views of the FSB. Valuable feedback was received on earlier versions of the paper presented at a Department of Trade and Industry workshop on Home-Based Enterprises; seminars at KITE, University of Newcastle; Centre for Regional Economic and Enterprise Development, University of Sheffield; and Department of Management, University of Otago, and at the 53rd International Council for Small Business (ICSB) World Conference in Halifax, Canada. We are also grateful to Mark Freel (University of Ottawa) and Paul Lynch (University of Strathclyde) for their comments on an earlier draft of the paper. We also wish to thank the two anonymous reviewers for their helpful suggestions. Finally, Colin Mason would like to thank the University of Otago (New Zealand) for the award of a William Evans Visiting Fellowship which provided the opportunity to revise the paper.

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Table 1. Number of hours spent working in the business in a typical week

	Home based businesses	Other businesses percentages	All businesses
Up to 30 hours	13.2	4.0	7.3
31-40 hours	16.3	11.2	13.0
41-50 hours	26.9	31.8	30.0
51-60 hours	23.0	29.5	27.2
Over 60 hours	20.6	23.7	22.6

Table 2. Reasons for starting a business from home

	Very important		Not important	
	number	%	number	%
To contain costs	3154	65.3	291	5.4
More convenient	2756	53.5	428	8.3
Nature of the business does not require commercial premises	2303	44.2	686	13.2
To avoid the need for commuting	1338	28.5	1313	27.9
To accommodate family needs	1364	27.5	1419	28.6
A low risk start – testing the waters	894	19.6	1671	36.7
To be flexible in the choice of where to live	686	15.8	2222	51.2
Business started as a hobby and grew	518	11.6	2788	62.7
The business included living premises (e.g. hotel)	446	10.5	3361	78.9
Temporary measure – business will to commercial premises when larger	456	10.2	2300	51.7
Worked at home in my previous job	386	9.1	2982	70.9
Lack of alternative commercial premises	302	7.1	2907	68.0

Notes: (i) respondents were given a one to five scale, one denoting not important and five denoting very important, (ii) businesses could give more than one response; (iii) number of responses varied per reason

Table 3. The geographical distribution of home-based businesses: regional analysis

	Home based businesses	Other businesses	VAT registrations in 2006* per 10,000 population
	percentages		
North East	29.1	70.9	22
North West	29.8	70.2	32
Yorkshire and The Humber	29.1	70.9	31
East Midlands	34.7	65.3	35
West Midlands	34.2	65.8	34
East of England	35.5	64.5	39
London	34.1	65.9	57
South East	40.8	59.2	43
South West	41.0	59.0	37
Wales	32.9	67.1	28
Scotland	36.7	63.3	28
Northern Ireland	17.5	82.5	33
United Kingdom	35.7	64.3	37

Source: BERR (2007b)

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Table 4. The geographical distribution of home-based businesses in England and Wales: urban-rural analysis

	Home based businesses	Other businesses
	Percentages	
Urban	32.1	67.9
Town and fringe	37.3	62.7
Village	53.7	46.3
Hamlet and isolated dwelling	53.8	46.2
England and Wales	36.1	63.9

Table 5. The geographical distribution of home-based businesses in Scotland: urban-rural analysis

	Home based businesses	Other businesses
	Percentages	
Urban	27.0	73.0
<i>Large urban area</i>	26.7	73.3
<i>Other urban</i>	27.4	72.6
Small town	31.7	58.3
<i>Accessible small town</i>	33.9	62.1
<i>Remote small town</i>	22.2	77.8
<i>Very remote small town</i>	33.3	66.7
Rural area	52.2	47.8
<i>Accessible rural</i>	52.5	47.5
<i>Remote rural</i>	50.4	49.6
<i>Very remote rural</i>	52.6	47.4
Scotland	36.4	63.6

Table 6. Industrial distribution of home based businesses*

industry	Home based businesses		Other businesses		HBBs as a % of total
	number	%	Number	%	
Agriculture, forestry and fishing	297	5.2	276	2.6	48.2
Manufacturing	326	5.5	1587	15.0	17.1
Construction and building-related activities	937	16.5	1173	11.1	44.4
Sale, maintenance and repair of motor vehicles and fuel retailing	65	1.1	455	4.3	12.5
Wholesale trade	172	3.0	553	5.2	23.7
Retailing	396	7.0	2432	22.9	14.0
Transport and activities related to transport	311	5.5	435	4.1	41.7
Financial services	271	4.8	385	3.6	41.3
Computer and related activities	570	10.0	415	3.9	57.9
Business services	986	17.4	848	8.0	53.8
Health and social work	172	3.0	297	2.8	36.7
Personal services	237	4.2	281	2.7	45.8
Total	5,675		10,597		34.9

* excluding sectors with fewer than 2.5% of businesses (mining and quarrying; electricity, gas and water supply; post, courier and telecommunications services; real estate activities; renting of machinery, equipment, personal and household goods; research and development activities; education)

Table 7. Engagement in e-commerce

Source of sales	Home based businesses		Other SMEs	
	Any sales	Over 50% of turnover	Any sales	Over 50% of turnover
	percentages			
eBay	6.9	0.8	7.5	0.2
Own web site	38.6	6.3	38.8	2.4
On line portals	6.7	1.5	6.2	0.5
3 rd party web sites	19.0	1.5	16.1	0.7

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Table 8. Annual turnover of home-based businesses

turnover	Home based businesses	Other SMEs
	percentages	
Less than £25,000	23.2	3.6
£26,000 - £50,000	25.0	8.4
£51,000 - £100,000	24.1	14.8
£101,000- £250,000	16.4	24.8
£251,000 - £500,000	7.1	20.0
Over £500,000	3.3	28.5

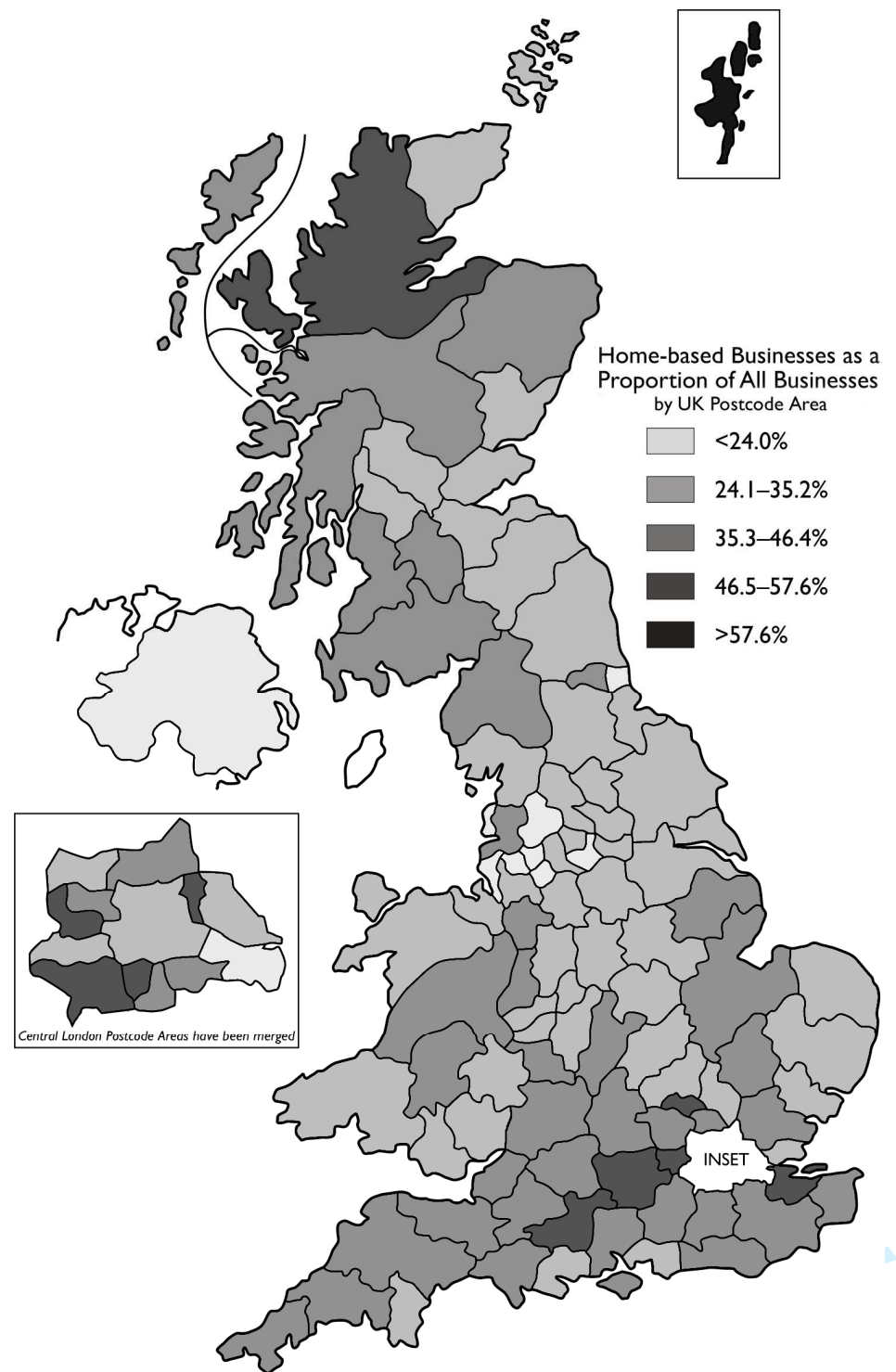
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Table 9. Employment in home based businesses*

Number of employees	Home based businesses	Other SMEs
	percentages	
0-1	26.8	8.1
2-4	49.9	24.0
5-9	14.6	26.3
10 and above	8.6	41.6

* includes owners and proprietors and both part-time and full-time employees

Figure 1. Home-based businesses as a proportion of all businesses (source: based on survey of members of the Federation of Small Business



END NOTES

¹ In this study a home-based business is defined as where the respondent's postcode for their home address is the same as that for their business address.

² However, Glaister (2008) is not convinced that home-based businesses will reduce car usage.

³ In the USA persons with disabilities are nearly twice as likely to be self-employed, and typically operate from home (Angelocci et al, 2008)

⁴ One of the few local authorities in the UK which recognises and supports home-based businesses is Horsham District Council in South East England (Horsham DC, 2007). In Australia some local authorities, particularly in outer metropolitan areas where business growth is a priority, have recognised the economic and social value of home-based businesses (Walker et al, 2002; 2004).

⁵ For example, Google has a free tool called AdSense which allows small companies to automatically sell advertisements and display them on their web site (Palmer, 2009a).

⁶ One example is independent remote traders – many of whom used to work in the City of London - who are now able to trade in sophisticated derivatives from home as a result of new 'black box' technology (Oakley, 2007).

⁷ Oakley (2007) comments that although the growth of remote trading (see note 6) has been facilitated by technology, the attraction for the individuals involved has been a better work-life balance and the avoidance of commuting-related stresses, but without compromising earnings potential.

⁸ One recent UK survey by Axa Protection suggests that one-third of new or expectant mothers aim to set up their own business and 34% are either currently working from home or are looking to start a home-based business (www.startups.com accessed on 12 January 2008).

⁹ The questionnaire was also available to complete on the Internet, and was available on request in six languages.

¹⁰ The full list of available responses to this question were: home; retail/shop unit; office; warehouse; factory, workshop, business unit; quarry, mine, brickworks, etc; agricultural buildings; and other commercial premises.

¹¹ However, this does not preclude the likelihood that a high proportion of home-based businesses make intensive use of the Internet to undertake their activities.

¹² The actual question was "How many years have you owned this business?"

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¹³ For example, there is a rapidly growing market for entrepreneurs with software skills to develop applications for mobile phones (Palmer, 2009a; 2009b)

¹⁴ For example, Government advice to home-based business owners about the implications for capital gains tax states that “every business is different and the tax implications differ from one business to another.” Similarly advice on business rates states that “whether your local authority charges business rates or not depends on the degree of business use ... each case is considered individually.”

For Peer Review Only